

Chapter 11

Disclosure (Pillar 3)



11.1 Application and purpose

Application

- 11.1.1 **R** ■ BIPRU 11 applies to a *BIPRU firm*.

Purpose

- 11.1.2 **G** Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of *BIPRU 11* is to implement:

- (1) (a) Article 68(3);
(b) Article 72;
(c) Articles 145 to 149; and
(d) Annex XII;
of the *Banking Consolidation Directive*; and
- (2) (a) Article 2, in part;
(b) Point 3 of Article 23, in part; and
(c) Article 39;
of the *Capital Adequacy Directive*.

11.2 Basis of disclosures

Disclosure on an individual basis

- 11.2.1 **R** The following must comply with the obligations laid down in ■ BIPRU 11.3 on an individual basis:
- (1) a *firm* which is neither a *parent undertaking* nor a *subsidiary undertaking*;
 - (2) a *firm* which is excluded from a *UK consolidation group* or *non-EEA sub-group* pursuant to ■ BIPRU 8.5; and
[Note: BCD Article 68(3)]
 - (3) a *firm* which is part of a *group* which has been granted an *investment firm consolidation waiver* under ■ BIPRU 8.4;
[Note: CAD.Article 23]

EEA parent institutions

- 11.2.2 **R** A *firm* which is an *EEA parent institution* must comply with the obligations laid down in ■ BIPRU 11.3 on the basis of its consolidated financial situation.
[Note: BCD Article 72(1)]

- 11.2.3 **R** A *firm* which is a significant subsidiary of an *EEA parent institution* must disclose the information specified in ■ BIPRU 11.4.5 R on an individual or sub-consolidated basis.

Firms controlled by an EEA parent financial holding company

- 11.2.4 **R** A *firm* controlled by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* must comply with the obligations laid down in ■ BIPRU 11.3 on the basis of the consolidated financial situation of that *EEA parent financial holding company* or *EEA parent mixed financial holding company*.
[Note: BCD Article 72(2)]

- 11.2.5 **R** A *firm* which is a significant subsidiary of an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* must disclose the information specified in ■ BIPRU 11.4.5 R on an individual or sub-consolidated basis.

Waiver: Comparable disclosures provided on a consolidated basis by a parent undertaking established in a third country

11.2.6

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A *firm* which is included within comparable disclosures provided on a consolidated basis by a *parent undertaking* whose head office is not in an *EEA State* may apply for a *waiver* from the relevant disclosure requirements in ■ BIPRU 11.2.2 R - ■ BIPRU 11.2.5 R. The *appropriate regulator's* approach to granting *waivers* is set out in the Supervision manual (see ■ SUP 8).

[Note: BCD Article 72(3)]

11.2.7

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A *firm* applying for a *waiver* from one or more of the disclosure requirements in ■ BIPRU 11.2.2 R - ■ BIPRU 11.2.5 R will need to:

- (1) satisfy the *appropriate regulator* that it is included within comparable disclosures provided on a consolidated basis by a *parent undertaking* whose head office is not in an *EEA State*; and
- (2) notify the *appropriate regulator* of the location where the comparable disclosures are provided.

11.3 Disclosures: Information to be disclosed; Frequency, media and location of disclosures; Verification

Information to be disclosed

11.3.1 **R** A *firm* must publicly disclose the information laid down in ■ BIPRU 11.5 subject to the provisions laid down in ■ BIPRU 11.3.5 R to ■ BIPRU 11.3.7 R.

[Note: BCD Article 145(1), CAD Article 39]

11.3.2 **R**

- (1) A *firm* which has an *IRB permission* must publicly disclose the information laid down in ■ BIPRU 11.6.1 R to ■ BIPRU 11.6.4 R.
- (2) A *firm* which recognises *credit risk mitigation* in accordance with ■ BIPRU 5 must publicly disclose the information laid down in ■ BIPRU 11.6.5 R.

(3) [deleted]

[Note: BCD Article 145(2), CAD Article 39]

Disclosure policy

11.3.3 **R**

- (1) A *firm* must adopt a formal policy to comply with the disclosure requirements laid down in ■ BIPRU 11.3.1 R and ■ BIPRU 11.3.2 R and have policies for assessing the appropriateness of its disclosures, including their verification and frequency.
- (2) A *firm* must also have policies for assessing whether its disclosures convey its risk profile comprehensively to market participants. Where those disclosures do not convey its risk profile comprehensively to market participants, a *firm* must publicly disclose the information necessary in addition to that required according to ■ BIPRU 11.3.3R (1). However, a *firm* may omit one or more items of information if those items are not, in the light of the criterion specified in ■ BIPRU 11.4.1 R, regarded as material, or if those items are, in the light of the criteria specified in ■ BIPRU 11.4.2 R and ■ BIPRU 11.4.3 R, regarded as proprietary or confidential.

[Note: BCD Article 145(3)]

Rating decisions

11.3.4 **R** A *firm* must, if requested, explain its rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when

asked. The administrative costs of the explanation have to be at an appropriate rate to the size of the loan.

[Note: BCD Article 145(4)]

Exemption from disclosure: Materiality

11.3.5

R

A *firm* may omit one or more of the disclosures listed in ■ BIPRU 11.5 if the information provided by such disclosures is not, in the light of the criterion specified in ■ BIPRU 11.4.1 R, regarded as material.

[Note: BCD Article 146(1)]

Exemption from disclosure: Proprietary or confidential information

11.3.6

R

A *firm* may omit one or more items of information included in the disclosures listed in ■ BIPRU 11.5 and ■ BIPRU 11.6 if those items include information which, in the light of the criteria specified in ■ BIPRU 11.4.2 R and ■ BIPRU 11.4.3 R, is regarded as proprietary or confidential.

[Note: BCD Article 146(2)]

11.3.7

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In the exceptional cases referred to in ■ BIPRU 11.3.6 R, a *firm* must:

- (1) state in its disclosures:
 - (a) the fact that the specific items of information are not disclosed; and
 - (b) the reason for non-disclosure; and
- (2) publish more general information about the subject matter of the disclosure requirement, except where these are to be classified as secret or confidential under the criteria set out in ■ BIPRU 11.4.2 R and ■ BIPRU 11.4.3 R.

[Note: BCD Article 146(3)]

Frequency of publication

11.3.8

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A *firm* must:

- (1) publish the disclosures required under ■ BIPRU 11.3.1 R to ■ BIPRU 11.3.5 R on an annual basis at a minimum;
- (2) publish disclosures as soon as practicable.

[Note: BCD Article 147(1)]

11.3.9

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A *firm* must also determine whether more frequent publication than is provided for in ■ BIPRU 11.3.8 R is necessary in the light of the criteria set out in ■ BIPRU 11.4.4 R.

[Note: BCD Article 147(2)]

Media and location of publication

11.3.10

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- (1) A *firm* may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements laid down in ■ BIPRU 11.3.1 R to ■ BIPRU 11.3.4 R.
- (2) To the degree feasible, a *firm* must provide all disclosures in one medium or location.
- (3) Equivalent disclosures made by a *firm* under accounting, *listing* or other requirements may be deemed to constitute compliance with ■ BIPRU 11.3.1 R to ■ BIPRU 11.3.4 R.
- (4) If disclosures are not included in the financial statements, a *firm* must indicate where they can be found.

[Note: BCD Article 148]

11.4 Technical criteria on disclosure: General criteria

Criterion for materiality

- 11.4.1 **R** A *firm* must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.
- [Note: BCD Annex XII Part 1 point 1]

Criteria: Proprietary or confidential information

- 11.4.2 **R**
- (1) A *firm* must regard information as proprietary information if sharing that information with the public would undermine its competitive position.
 - (2) Proprietary information may include information on products or systems which, if shared with competitors, would render a *firm's* investments therein less valuable.
- [Note: BCD Annex XII Part 1 point 2]

- 11.4.3 **R** A *firm* must regard information as confidential if there are obligations to customers or other counterparty relationships binding the *firm* to confidentiality.
- [Note: BCD Annex XII Part 1 point 3]

Criteria: Frequency of publication

- 11.4.4 **R**
- (1) A *firm* must assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of its business such as:
 - (a) scale of operations;
 - (b) range of activities;
 - (c) presence in different countries;
 - (d) involvement in different financial sectors;
 - (e) participation in international financial markets; and
 - (f) participation in payment, settlement and clearing systems.
 - (2) In making its assessment under (1) a *firm* must pay particular attention to the possible need for more frequent disclosure of:

- (a) items of information laid down in ■ BIPRU 11.5.3 R (2) and ■ BIPRU 11.5.3 R (5), and ■ BIPRU 11.5.4 R (2) - ■ BIPRU 11.5.4 R (5);
- (b) information on risk exposure and other items prone to rapid change.

[Note: BCD Annex XII Part 1 point 4]

Disclosures: Significant subsidiaries

11.4.5

R

A firm which is a significant subsidiary of:

- (1) an EEA parent institution; or
- (2) an EEA parent financial holding company; or
- (3) an EEA parent mixed financial holding company;

must disclose the information specified in ■ BIPRU 11.5.3 R to ■ BIPRU 11.5.4 R on an individual or sub-consolidated basis.

[Note: BCD Annex XII Part 1 point 5]

11.5 Technical criteria on disclosure: General requirements

11.5.1

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Disclosure: Risk management objectives and policies

A *firm* must disclose its risk management objectives and policies for each separate category of risk, including the risks referred to under ■ BIPRU 11.5.1 R to ■ BIPRU 11.5.17 R. These disclosures must include:

- (1) the strategies and processes to manage those risks;
- (2) the structure and organisation of the relevant risk management function or other appropriate arrangements;
- (3) the scope and nature of risk reporting and measurement systems; and
- (4) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

[Note: BCD Annex XII Part 2 point 1]

11.5.2

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Disclosure: Scope of application of directive requirements

A *firm* must disclose the following information regarding the scope of application of the requirements of the *Banking Consolidation Directive*:

- (1) the name of the *firm* which is the subject of the disclosures;
- (2) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:
 - (a) fully consolidated;
 - (b) proportionally consolidated;
 - (c) deducted from *capital resources*;
 - (d) neither consolidated nor deducted;
- (3) any current or foreseen material practical or legal impediment to the prompt transfer of *capital resources* or repayment of liabilities among the *parent undertaking* and its *subsidiary undertakings*;
- (4) the aggregate amount by which the actual *capital resources* are less than the required minimum in all *subsidiary undertakings* not included in the consolidation, and the name or names of such *subsidiary undertakings*; and

- (5) if applicable, the circumstance of making use of the provisions laid down in ■ BIPRU 2.1 (Solo consolidation waiver).

[Note: BCD Annex XII Part 2 point 2]

Disclosure: Capital resources

11.5.3

R

A firm must disclose the following information regarding its *capital resources*:

- (1) summary information on the terms and conditions of the main features of all *capital resources* items and components thereof, including:
 - (a) *hybrid capital*;
 - (b) *capital instruments* which provide an incentive for the *firm* to redeem them; and
 - (c) *capital instruments* which the *firm* treats as *tier one capital* under ■ GENPRU TP8A;
- (2) *tier one capital resources*, with separate disclosure of:
 - (a) all positive items and deductions;
 - (b) the overall amount of *hybrid capital*, with specification of those instruments treated as *tier one capital* under ■ GENPRU TP 8A.1; and
 - (c) the overall amount of *capital instruments* that provide for an incentive to redeem them, with specification of those instruments treated as *tier one capital* under ■ GENPRU TP 8A.1;
- (3) the total amount (for the purposes of (3), the total amount must be stated gross of deductions) of:
 - (a) *tier two capital resources* plus any *innovative tier one capital resources*; and
 - (b) *tier three capital resources*;
- (4) deductions from *tier one capital resources* and *tier two capital resources*, with separate disclosure of items referred to in ■ GENPRU 2.2.236 R; and
- (5) total *capital resources*, net of deductions in ■ GENPRU 2.2 and limits laid down in ■ GENPRU 2.2.25 R to ■ GENPRU 2.2.30 R and ■ GENPRU 2.2.42 R to ■ GENPRU 2.2.50 R.

[Note: BCD Annex XII Part 2 point 3]

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the overall Pillar 2 rule

11.5.4

R

A firm must disclose the following information regarding compliance with ■ BIPRU 3, ■ BIPRU 4, , ■ BIPRU 7, and the *overall Pillar 2 rule*:

- (1) a summary of the *firm's* approach to assessing the adequacy of its internal capital to support current and future activities;

- (2) for a *firm* calculating *risk weighted exposure amounts* in accordance with the *standardised approach* to credit risk, 8% of the *risk weighted exposure amounts* for each of the *standardised credit risk exposure classes*;
- (3) for a *firm* calculating *risk weighted exposure amounts* in accordance with the *IRB approach*, 8% of the *risk weighted exposure amounts* for each of the *IRB exposure classes*;
[Note: BCD Annex XII Part 2 point 4 (part)]
- (4) the *firm's* minimum capital requirements for the following:
 - (a) in respect of its *trading-book* business, its:
 - (i) *interest rate PRR*;
 - (ii) *equity PRR*;
 - (iii) *option PRR*;
 - (iv) *collective investment schemes PRR*;
 - (v) *counterparty risk capital component*; and
 - (vi) [deleted]
 - (b) in respect of all of its business activities, its:
 - (i) *commodity PRR*; and
 - (ii) *foreign currency PRR*.
- (5) [deleted]

11.5.5

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For *retail exposures*, the requirement under ■ BIPRU 11.5.4 R (3) applies to each of the following categories:

- (1) *exposures to retail SMEs*;
- (2) *retail exposures* secured by real estate collateral;
- (3) *qualifying revolving retail exposures*; and
- (4) other *retail exposures*.

[Note: BCD Annex XII Part 2 point 4(part)]

11.5.6

R

For *equity exposures*, the requirement under ■ BIPRU 11.5.4 R (3) applies to:

- (1) each of the approaches (the simple risk weight approach, the PD/LGD approach and the internal models approach) provided for in ■ BIPRU 4.7.5 R to ■ BIPRU 4.7.6 R, ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.11 R, ■ BIPRU 4.7.14 R to ■ BIPRU 4.7.16 R, ■ BIPRU 4.7.24 R to ■ BIPRU 4.7.25 R;
- (2) *exchange traded exposures*, *private equity exposures* in sufficiently diversified portfolios, and other *exposures*;
- (3) *exposures* subject to supervisory transition regarding capital requirements; and

- (4) *exposures* subject to grandfathering provisions regarding capital requirements.

[Note: BCD Annex XII Part 2 point 4(part)]

11.5.7

R

A *firm* must disclose the following information regarding its *exposure* to *counterparty credit risk*:

- (1) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit *exposures*;
- (2) a discussion of policies for securing collateral and establishing credit reserves;
- (3) a discussion of policies with respect to wrong-way risk *exposures*;
- (4) a discussion of the impact of the amount of collateral the *firm* would have to provide given a downgrade in its credit rating;
- (5) gross positive fair value of contracts, netting benefits, netted current credit *exposure*, collateral held and 'net derivatives credit *exposure*', where 'net derivatives credit *exposure*' is the credit *exposure* on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;
- (6) measures for exposure value under the *CCR mark to market method*, the *CCR standardised method* or the *CCR internal model method*, whichever is applicable;
- (7) the notional value of credit derivative hedges, and the distribution of current credit *exposure* by types of credit *exposure*;
- (8) credit derivative transactions (notional), segregated between use for the *firm's* own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; and
- (9) the estimate of alpha (α) if the *firm's CCR internal model method permission* permits it to estimate α .

[Note: BCD Annex XII Part 2 point 5]

Disclosure: Credit risk and dilution risk

11.5.8

R

A *firm* must disclose the following information regarding its *exposure* to credit risk and *dilution risk*:

- (1) the definitions for accounting purposes of past due and impaired;
- (2) a description of the approaches and methods adopted for determining value adjustments and provisions;
- (3) the total amount of *exposures* after accounting offsets and without taking into account the effects of *credit risk mitigation*, and the average amount of the *exposures* over the period broken down by different types of *exposure* classes;

- (4) the geographic distribution of the *exposures*, broken down in significant areas by material *exposure* classes, and further detailed if appropriate;
- (5) the distribution of the *exposures* by industry or counterparty type, broken down by *exposure* classes, and further detailed if appropriate;
- (6) the residual maturity breakdown of all the *exposures*, broken down by *exposure* classes, and further detailed if appropriate;
- (7) by significant industry or counterparty type, the amount of:
 - (a) impaired *exposures* and past due *exposures*, provided separately;
 - (b) value adjustments and provisions; and
 - (c) charges for value adjustments during the period;
- (8) the amount of the impaired *exposures* and past due *exposures*, provided separately, broken down by the significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area;
- (9) the reconciliation of changes in the value adjustments and provisions for impaired *exposures*, shown separately; and
- (10) value adjustments and recoveries recorded directly to the income statement must be disclosed separately.

[Note: BCD Annex XII Part 2 point 6 (part)]

11.5.9

R

The information to be disclosed under ■ BIPRU 11.5.8 R (9) must comprise:

- (1) a description of the type of value adjustments and provisions;
- (2) the opening balances;
- (3) the amounts taken against the provisions during the period;
- (4) the amounts set aside or reversed for estimated probable losses on *exposures* during the period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of *subsidiary undertakings*, and transfers between provisions; and
- (5) the closing balances.

[Note: BCD Annex XII Part 2 point 6 (part)]

Disclosure: Firms calculating risk weighted exposure amounts in accordance with the standardised approach

11.5.10

R

For a *firm* calculating *risk weighted exposure amounts* in accordance with the *standardised approach* to credit risk, the following information must be disclosed for each of the *standardised credit risk exposure classes*;

- (1) the names of the *nominated ECAs* and export credit agencies and the reasons for any changes;

- (2) the *standardised credit risk exposure classes* for which each *ECAI* or export credit agency is used;
- (3) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the *trading book*;
- (4) the association of the external rating of each *nominated ECAI* or export credit agency with the *credit quality steps* prescribed in ■ BIPRU 3, taking into account that this information need not be disclosed if the *firm* complies with the *credit quality assessment scale*; and
- (5) the *exposure values* and the *exposure values after credit risk mitigation* associated with each *credit quality step* prescribed in ■ BIPRU 3, as well as those deducted from *capital resources*.

[Note: BCD Annex XII Part 2 point 7]

Disclosure: Firms calculating risk weighted exposure amounts using the IRB approach

11.5.11 **R** A firm calculating risk weighted exposure amounts for specialised lending exposures in accordance with ■ BIPRU 4.5.8 R to ■ BIPRU 4.5.10 R or equity exposures in accordance with ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.10 R (the simple risk weight approach) must disclose the exposures assigned:

- (1) to each category of the table in ■ BIPRU 4.5.9 R; or
- (2) to each *risk weight* mentioned in ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.10 R.

[Note: BCD Annex XII Part 2 point 8]

Disclosure: Market risk

11.5.12 **R** A firm must disclose its *capital resources requirements* separately for each risk referred to in (1), (2) and (3):

- (1) in respect of its *trading-book* business, its:
 - (a) *interest rate PRR*;
 - (b) *equity PRR*;
 - (c) *option PRR*;
 - (d) *collective investment schemes PRR*;
 - (e) *counterparty risk capital component*; and
 - (f) [deleted]
- (2) in respect of all of its business activities, its:
 - (a) *commodity PRR*; and
 - (b) *foreign currency PRR*; and
- (3) its specific interest-rate risk of *securitisation positions*.

[Note: BCD Annex XII Part 2 point 9]

Disclosure: Use of VaR model for calculation of market risk capital requirement

11.5.13

R

The following information must be disclosed by a *firm* which calculates its *market risk capital requirement* using a *VaR model*:

- (1) for each sub-portfolio covered:
 - (a) the characteristics of the models used;
 - (b) a description of stress testing applied to the sub-portfolio;
 - (c) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
 - (d) for the capital charges calculated according to the *incremental risk charge* and the *all price risk measure* separately, the methodologies used and the risks measured through the use of an internal model, including a description of the approach used by the *firm* to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;
- (2) the scope of the *firm's VaR model permission*;
- (3) a description of the extent and methodologies for compliance with the requirements set out in ■ GENPRU 1.3.13 R (2) and ■ GENPRU 1.3.13 R (3) and ■ GENPRU 1.3.14 R to ■ GENPRU 1.3.34 R;
- (4) the highest, the lowest and the mean of the following:
 - (a) the daily *VaR measures* over the reporting period and the *VaR measure* as per the period end;
 - (b) the *stressed VaR measures* over the reporting period and the *stressed VaR measure* as per the period end;
 - (c) the capital charge according to the *incremental risk charge* over the reporting period and as per the period end;
 - (d) the capital charge according to the *all price risk measure* over the reporting period and as per the period end;
- (5) the amount of capital according to the *incremental risk charge* and the amount of capital according to the *all price risk measure* shown separately, together with the weighted average liquidity horizon for each sub-portfolio covered; and
- (6) a comparison of the daily end-of-day *VaR measures* to the one-day changes of the portfolio's value by the end of the subsequent *business day* together with an analysis of any important overshooting during the reporting period.

[Note: BCD Annex XII Part 2 point 10]

Disclosure: Non-trading book exposures in equities

11.5.15

R

A *firm* must disclose the following information regarding the *exposures in equities* not included in the *trading book*:

- (1) the differentiation between *exposures* based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;
- (2) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;
- (3) the types, nature and amounts of exchange-traded *exposures*, private *equity exposures* in sufficiently diversified portfolios, and other *exposures*;
- (4) the cumulative realised gains or losses arising from sales and liquidations in the period; and
- (5) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in *tier one*, *tier two* or *tier three capital resources*.

[Note: BCD Annex XII Part 2 point 12]

Disclosures: Exposures to interest rate risk in the non-trading book

11.5.16 **R** A firm must disclose the following information on its *exposure* to interest rate risk on positions not included in the *trading book*:

- (1) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; and
- (2) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

[Note: BCD Annex XII Part 2 point 13]

Disclosures: Securitisation

11.5.17 **R** A firm calculating *risk weighted exposure amounts* in accordance with ■ BIPRU 9 or *capital resource requirements* according to ■ BIPRU 7.2.48A R to ■ BIPRU 7.2.48K R must disclose the following information, where relevant separately for its *trading book* and *non-trading book*:

- (1) a description of the *firm's* objectives in relation to *securitisation* activity;
- (1A) the nature of other risks, including *liquidity risk* inherent in securitised assets;
- (1B) the type of risks in terms of seniority of underlying *securitisation positions* and in terms of assets underlying these latter *securitisation positions* assumed and retained with *resecuritisation* activity;

- (2) the different roles played by the *firm* in the *securitisation* process;
- (3) an indication of the extent of the *firm's* involvement in each of them;
- (3A) a description of the processes in place to monitor changes in the credit and market risk of *securitisation exposures*, including how the behaviour of the underlying assets impacts *securitisation positions* and a description of how those processes differ for *resecuritisation positions*;
- (3B) a description of the *firm's* policy governing the use of hedging and unfunded protection to mitigate the risks of retained *securitisation* and *resecuritisation positions*, including identification of material hedge counterparties by relevant type of risk exposure;
- (4) the approaches to calculating *risk weighted exposure amounts* that the *firm* follows for its *securitisation* activities, including the types of *securitisation exposures* to which each approach applies;
- (4A) the types of *SSPEs* that the *firm*, as *sponsor*, uses to securitise third-party *exposures*, including whether, and in what form, and to what extent, the *firm* has *exposures* to these *SSPEs*, separately for on and off-balance sheet *exposures*, as well as a list of the entities that the *firm* manages, or advises, and that invest in either the *securitisation positions* that the *firm* has securitised or in *SSPEs* that the *firm* sponsors;
- (5) a summary of the *firm's* accounting policies for *securitisation* activities, including:
 - (a) whether the transactions are treated as sales or financings;
 - (b) the recognition of gains on sales;
 - (c) the methods, key assumptions, inputs and the changes from the previous period for valuing *securitisation positions*;
 - (d) the treatment of *synthetic securitisations* if this is not covered by other accounting policies;
 - (e) how assets awaiting *securitisation* are valued and whether they are recorded in the *firm's non-trading book* or *trading book*; and
 - (f) policies for recognising liabilities on the balance sheet for arrangements that could require the *firm* to provide financial support for securitised assets;
- (6) the names of the *ECAs* used for *securitisations* and the types of *exposure* for which each agency is used;
- (6A) where applicable, a description of the *ABCP internal assessment approach* as set out in ■ BIPRU 9.12.20 R including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for *ABCP internal assessment approach* capital purposes, the control mechanisms for the internal assessment process (including discussion of independence, accountability, and internal assessment process review), the *exposure* types to which the internal assessment process is applied and the stress factors used for determining *credit enhancement* levels, by *exposure* type;

- (6B) an explanation of significant changes to any of the quantitative disclosures in (8) and (13) to (15) since the last reporting period;
- (7) [deleted]
- (8) for the *non-trading book* and for *exposures securitised* by the *firm*, the amount of impaired and past due *exposures securitised*, and the losses recognised by the *firm* during the current period, broken down by exposure type;
- (9) [deleted]
- (10) [deleted]
- (11) [deleted]
- (12) [deleted]
- (13) separately for the *trading book* and the *non-trading book*, the following information broken down by *exposure* type:
 - (a) the total outstanding amount of *exposures securitised* by the *firm*, separately for *traditional securitisations* and *synthetic securitisations*, and *securitisations* for which the *firm* acts only as *sponsor*;
 - (b) the aggregate amount of on-balance sheet *securitisation positions* retained or purchased, and off-balance sheet *securitisation exposures*;
 - (c) the aggregate amount of assets awaiting *securitisation*;
 - (d) for securitised facilities subject to an *early amortisation provision*, the aggregate drawn-down *exposures* attributed to the *originator's* and investors' interests respectively, the aggregate *capital resources requirement* incurred by the *firm* against the *originator's* interest and the aggregate *capital resources requirement* incurred by the *firm* against the investors' shares of drawn balances and undrawn lines;
 - (e) the amount of *securitisation positions* that have been *risk weighted* at 1250% or deducted; and
 - (f) a summary of the *securitisation* activity of the current period, including the amount of *exposures securitised* and recognised gain or loss on sale;
- (14) separately for the *trading book* and the *non-trading book*, the following information:
 - (a) the aggregate amount of *securitisation positions* retained or purchased and the associated *capital resources requirements*, broken down by *securitisation* and *resecuritisation exposures*, and further broken down into a meaningful number of *risk weight* or *capital resources requirement* bands, for each *capital resources requirement* approach used; and
 - (b) the aggregate amount of *resecuritisation exposures* retained or purchased, broken down according to the *exposure* before and after hedging or insurance, and the *exposure* to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name; and

- (15) for the *trading book*, the total outstanding *exposures securitised* by the *firm* and subject to a *market risk capital requirement*, broken down into *traditional* and *synthetic*, and by *exposure* type.

[Note: BCD Annex XII Part 2 point 14]

Disclosures: remuneration

11.5.18

R

A *firm* must disclose the following information, including regular, at least annual, updates, regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile:

- (1) information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;
- (2) information on the link between pay and performance;
- (3) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;
- (4) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;
- (5) the main parameters and rationale for any variable component scheme and any other non-cash benefits;
- (6) aggregate quantitative information on remuneration, broken down by business area;
- (7) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the *firm*, indicating the following:
 - (a) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
 - (b) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
 - (c) the amounts of outstanding deferred remuneration, split into vested and unvested portions;
 - (d) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;
 - (e) new sign-on and severance payments made during the financial year, and the number of beneficiaries of those payments;

- (f) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

[Note: Paragraph 15 of Annex XII to the *Banking Consolidation Directive*.]

11.5.19 **G** The *appropriate regulator* would normally consider the requirements to publish disclosures in accordance with ■ BIPRU 11.3.8 R and ■ 11.3.9 R in respect of ■ BIPRU 11.5 as a whole to meet the requirement in paragraph 15 of Annex XII to the *Banking Consolidation Directive* to publish "regular, at least annual, updates" (as implemented in ■ BIPRU 11.5.18 R).

11.5.20 **R** (1) A *firm* that is significant in terms of its size, internal organisation and the nature, scope and the complexity of its activities must also disclose the quantitative information referred to in ■ BIPRU 11.5.18 R at the level of *senior personnel*.

- (2) *Firms* must comply with the requirements set out in ■ BIPRU 11.5.18 R in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

[Note: Paragraph 15 of Annex XII to the *Banking Consolidation Directive*.]

[Note: The *appropriate regulator* has given *guidance* for the purpose of providing a framework for complying with the disclosure requirements of ■ BIPRU 11.5.18 R in accordance with the proportionality test set out in ■ BIPRU 11.5.20 R (2).]

11.5.21 **G** In the *appropriate regulator's* view, the exemptions from disclosure provided for in ■ BIPRU 11.3.5 R (materiality) and ■ BIPRU 11.3.6 R (proprietary or confidential information) are unlikely to apply to the disclosure required by ■ BIPRU 11.5.18 R (having regard, amongst other things, to the fact that the requirements set out in ■ BIPRU 11.5.18 R are to be complied with in the manner described in ■ BIPRU 11.5.20 R (2)).

11.6 Qualifying requirements for the use of particular instruments or methodologies

Disclosures: Firms using the IRB approach

11.6.1

R

A firm calculating *risk weighted exposure amounts* in accordance with the *IRB approach* must disclose the following information:

- (1) the scope of the *firm's IRB permission*;
- (2) an explanation and review of:
 - (a) the structure of internal *rating systems* and relation between internal and external ratings;
 - (b) the use of internal estimates other than for calculating *risk weighted exposure amounts* in accordance with the *IRB approach*;
 - (c) the process for managing and recognising *credit risk mitigation*; and
 - (d) the control mechanisms for *rating systems* including a description of independence, accountability, and *rating systems review*;
- (3) a description of the internal ratings process, provided separately for the following *IRB exposure classes*:
 - (a) central governments and *central banks*;
 - (b) *institutions*;
 - (c) corporate, including SMEs, *specialised lending* and purchased corporate receivables;
 - (d) retail, for *exposures to retail SMEs exposures, retail exposures secured by real estate collateral, qualifying revolving retail exposures, and other retail exposures*; and
 - (e) *equities*;
- (4) the *exposure values* for each of the *IRB exposure classes*;
- (5) for each of the *IRB exposure classes* central governments and *central banks, institutions, corporate and equity*, and across a sufficient number of *obligor grades* (including *default*) to allow for a meaningful differentiation of credit risk, a *firm* must disclose:
 - (a) the total *exposures* (for the *IRB exposure classes* central governments and *central banks, institutions and corporate exposures*, the sum of outstanding loans and *exposure values* for

undrawn commitments; for *equity exposures*, the outstanding amount);

(b) for a *firm* using own *LGD* estimates for the calculation of *risk weighted exposure amounts*, the *exposure-weighted average LGD* in percentage;

(c) the *exposure-weighted average risk weight*; and

(d) for a *firm* using own estimates of *conversion factors* for the calculation of *risk weighted exposure amounts*, the amount of undrawn commitments and *exposure-weighted average exposure* values for each *IRB exposure class*;

(6) for the *retail exposure* class and for each of the categories of:

(a) *exposures to retail SMEs*;

(b) *retail exposures* secured by real estate collateral;

(c) *qualifying revolving retail exposures*; and

(d) other *retail exposures*;

either the disclosures outlined under (5) (if applicable, on a pooled basis), or an analysis of *exposures* (outstanding loans and *exposure* values for undrawn commitments) against a sufficient number of *EL* grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);

(7) the actual value adjustments in the preceding period for each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)) and how they differ from past experience;

(8) a description of the factors that impacted on the loss experience in the preceding period (for example, whether the *firm* experienced higher than average *default* rates, or higher than average *LGDs* and *conversion factors*); and

(9) the *firm's* estimates against actual outcomes over a longer period including, at a minimum, information on estimates of losses against actual losses in each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)).

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.2

R

For the purposes of ■ BIPRU 11.6.1 R (3), the description must include the types of *exposure* included in the *IRB exposure class*, the definitions, methods and data for estimation and validation of *PD* and, if applicable, *LGD* and *conversion factors*, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of *default*, including the broad segments affected by such deviations.

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.3

R

For the purposes of ■ BIPRU 11.6.1 R (4), where a *firm* uses its own estimates of *LGDs* or *conversion factors* for the calculation of *risk weighted exposure*

amounts for exposures falling into the *sovereign, institution and corporate IRB exposure class*, the *firm* must disclose those *exposures* separately from *exposures* for which it does not use such estimates.

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.4

R

For the purposes of ■ BIPRU 11.6.1 R (9), where appropriate, a *firm* must further decompose the information to provide analysis of *PD* and, for a *firm* using own estimates of *LGDs* and/or *conversion factors*, *LGD* and *conversion factor* outcomes against estimates provided in the quantitative risk assessment disclosures under ■ BIPRU 11.6.1 R to ■ BIPRU 11.6.4 R.

[Note: BCD Annex XII Part 3 point 1 (part)]

Disclosures: Credit risk mitigation

11.6.5

R

A *firm* applying *credit risk mitigation* techniques must disclose the following information:

- (1) the policies and processes for, and an indication of the extent to which the *firm* makes use of, on- and off-balance sheet netting;
- (2) the policies and processes for collateral valuation and management;
- (3) a description of the main types of collateral taken by the *firm*;
- (4) the main types of guarantor and credit derivative counterparty and their creditworthiness;
- (5) information about *market risk* or credit risk concentrations within the credit mitigation taken;
- (6) for *firms* calculating *risk weighted exposure amounts* using the *standardised approach* to credit risk or the *IRB approach*, but not providing own estimates of *LGDs* or *conversion factors* in respect of the *exposure class*, separately for each *exposure class*, the total *exposure value* (after, where applicable, on- or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral; and
- (7) for *firms* calculating *risk weighted exposure amounts* using the *standardised approach* or the *IRB approach*, separately for each *exposure class*, the total *exposure* (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for *equity exposures*, this requirement applies to each of the approaches (the simple risk weight approach, the PD/LGD approach and the internal models approach) provided for in ■ BIPRU 4.7.5 R to ■ BIPRU 4.7.6 R, ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.11 R, ■ BIPRU 4.7.14 R to ■ BIPRU 4.7.16 R, ■ BIPRU 4.7.24 R to ■ BIPRU 4.7.25 R.

[Note: BCD Annex XII Part 3 point 2]